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REPORT ON UNCTAD'S ASSISTANCE TO THE PALESTINIAN PEOPLE

Prepared by the UNCTAD secretariat

Executive summary

As the development needs facing the Palestinian economy pose new challenges for policy makers, Palestinian economic growth potentials continue to be constrained by structural weaknesses arising from historical trends. The new economic policy environment created by the Israel-Palestine accords since 1993 has made important contributions to enhancing the regulatory framework and operating conditions for revival of the economy, propelled by a vigorous private sector. However, a range of macroeconomic and sectoral issues remain to be addressed as the Palestinian economy prepares for greater regional cooperation and integration in the global economy. UNCTAD's programme of assistance to the Palestinian people has aimed, since 1995, to provide concrete technical assistance to examine problem areas and technical issues, advise on requisite policy measures and build the capacities of policy makers and private sector practitioners involved in developing Palestinian trade, financial and related services sectors. UNCTAD's activities in this area revolve around four programme clusters: trade policies and strategies; trade facilitation and logistics; finance and development; and enterprise, investment and competition policy. By linking the findings of analytical and empirical research in these areas to specific technical assistance needs identified by the Palestinian Authority, the secretariat has been able to deliver targeted technical assistance in areas of its competence. This has helped to attract growing support from bilateral and multilateral funding sources for UNCTAD projects to initiate reform and modernization in key areas of Palestinian economic governance, while developing increasingly cooperative relationships with other agencies that provide assistance to the Palestinian people.

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Chapter I

DEVELOPMENTS IN THE PALESTINIAN ECONOMY, 1999-2000

1. The economic policy environment in the occupied Palestinian territory[1] during the last year of the interim period established by the Israel-Palestine accords of 1993 featured a renewed sense of impending change. This was spurred by the urgent need to realize the promised economic dividends of the peace process after five years of interim period decline, coupled with expectations for a resolution in 2000 of the pending interim and permanent status issues between the parties. Inherent to the concept of the interim period and the establishment of the Palestinian Authority (PA) was that it should allow for a gradual transformation of the regulatory and institutional environment affecting Palestinian economic activity. Moving away from the restrictive conditions prior to 1994, a transitional enabling environment was envisaged along modern lines promoting enterprise, growth, development and the realization of economic potentials. By 1999, most of the opportunities for economic reform offered by the interim accords had been exhausted, but some areas of further progress were registered over the past year in the regulatory and institutional framework.

2. In June 2000, Israel and Palestine signed a much-delayed agreement to permit the expansion of one of the lists of goods which the PA is permitted to import according to its own policy from neighbouring Arab markets. These goods originally involved less than 100 items, limited by quotas. The new agreement sets the scene for further diversification in Palestinian trade flows and specifies some 1,300 items, which are duty-exempt if imported from Egypt or Jordan up to a quota of $22 million. In addition, Israel agreed to reimburse PA entitlements to purchase taxes on imports from/through Israel. Though future trade and economic relations remain to be negotiated, these final economic modifications to interim period accords indicate a basis for constructive trade cooperation between the parties.

3. Meanwhile, the PA forged ahead with the preparation, review and adoption of a range of newly drafted laws governing political, social and economic and other activities. By mid-2000, a total of 128 draft laws had been submitted to the PA Ministry of Justice for review and transmission to the PA Council of Ministers and Legislative Council. Of these, 40 had been signed into force, while another 20 were at different stages of legislative review. Despite the constraints that characterized the interim period, the expanding evidence of the rule of law in all aspects of Palestinian life represents a significant achievement for the new Palestinian Government and an encouraging sign for future economic and social development.

4. The PA has recently produced a comprehensive statement on its commitment to ensuring that "economic policies over the coming years make a positive and significant contribution to overcoming the challenges facing the Palestinian economy".[2] This was first reflected in the formation this year of the Higher Council for Development (HCD), to oversee PA efforts to enhance governance and strengthen public finances. The strategic role envisaged for the HCD "represents an important reorientation of the PA's economic policies"[3] and will help to bring Palestinian public policy more into line with global standards, as follows:

- Consolidation of disparate public revenue accounts at the PA Ministry of Finance;

- Curtailing current public expenditures, which have continued to grow unchecked;

- Full disclosure of information on PA commercial operations and investments;[4]

- Designing a privatization strategy for PA holdings; and

- Elaborating PA policy on public debt.[5]

5. Finally, as permanent status negotiations between Israel and Palestine have progressed since 1999, so have preparations intensified at all levels to elaborate economic policy guidelines, negotiation strategies and development programmes to guide the Palestinian economy in the "post-interim" period. This year also witnessed further improvements in PA institutional performance in economic management, and increasing inter-ministerial harmonization and rationalization. This bodes well for the future development of a public sector that delivers basic social services that the Palestinian people have come to expect, while promoting the dynamic role of the market, and the vast potentials for growth, development and regional cooperation and integration that this path promises.

6. Following the troubled start of the interim period, the Palestinian economy turned around in 1997 and has since continued to grow and demonstrate its potential for sustained expansion.[6] Table 1 presents a summary of major economic indicators, based on available official statistical sources. Palestinian gross domestic product (GDP) and gross national income (GNI - includes labour income from Israel) grew in 1998 by 7 per cent and 8 per cent, respectively.[7] This translates into per capita GDP and GNI growth of 6 and 7 per cent, a rate not witnessed since before 1988. Preliminary data for 1999 and 2000 indicate that aggregate, and especially per capita, income is projected to continue to grow, albeit at lower rates.

7. This performance is reminiscent of the 1992-1993 and pre-1988 expansion periods, which were usually followed by steep decline, highlighting the Palestinian economy's vulnerability to external pressures and shocks. As was the case prior to 1994, Palestinian GDP constitutes no more than three quarters of gross national disposable income. The structure of aggregate demand features a high ratio of private consumption to GDP, indicating no structural shift from historical economic trends, whereby external income rather than domestic expansion fuels aggregate demand. Meanwhile the share of public consumption has grown to the equivalent of almost a quarter of GDP since 1994, mainly owing to unrestrained government recruitment. The level and share of gross capital formation have grown in recent years, reflecting the unabated boom in private residential construction activity since 1994. Though public investment is a more significant component of aggregate demand than prior to 1994, it remains at lower levels than apparent needs as outlined in the Palestinian Development Plan.

Table 1: Palestinian territory[a]: key economic indicators, 1994 and 1996-1998

INDICATOR/UNITS	1994	1996	1997	1998
National accounts				
Gross domestic product - GDP (million US$)	2 624	3 413	4 173	4 484
Gross national income - GNI (million US$)	3 096	3 864	4 906	5 475
GDP per capita (US$)	1 274	1 497	1 500	1 548
GNI per capita (US$)	1 503	1 695	1 763	1 890
Expenditure on GDP				
Private consumption including non-profit institutions (per cent of GDP)	105	106	100	98
Government consumption (per cent of GDP)	13	20	23	24
Private investment, including changes in inventories (per cent of GDP)	23	26	35	32
Government investment (per cent of GDP)	6	7	7	6
Goods and services trade balance (per cent of GDP)	-51	-59	-65	-60
Balance of payments				
Goods and services balance (million US$)	-977	-1 856	-2 074	-2 439
Net factor income - NFI (million US$)	575	469	606	828
Net current transfers - NTR (million US$)	559	594	385	354
Current account balance: goods, services, NFI, NTR (million US$)	157	-793	-1 083	-1 256
Donor finance (million US$)	665	735	716	549
Net capital movements, errors, omissions and discrepancies (million US$)	822	-58	-367	-707
Population and employment				
Population (thousands)	2 060	2 279	2 782	2 896
Unemployment (per cent of labour force)	15	24	20	15
Employment in Israel (per cent of total employed)	18	14	17	21

Sources: – National accounts, population and employment: Palestinian Central Bureau of Statistics (PCBS) and Palestine Economic Policy Research Institute – MAS, MAS Economic Monitor, No. 6, April 2000.

– Expenditure on GDP: for 1994, UNCTAD secretariat estimates; for 1995/6-1998 PCBS.

– Balance of payments: Palestinian Authority and International Monetary Fund, "West Bank and Gaza Economic Policy Framework – Progress Report", 31 May 2000.

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a Excluding east Jerusalem.

8. The deficit in trade in goods and services has grown sharply since 1994, owing to an unprecedented and sustained surge in imports, reflected also in a ratio of imports to GDP that now regained historically high levels. On the other hand, the value of Palestinian exports onl recently regained the level already attained in the early 1980s. The merchandise trade deficit accounts for the bulk of the current account deficit, which is dominated by trade with Israel. Nevertheless, a gradual trend towards openness to more diverse sources of imports is one rec

positive sign in this sector. The current account balance, which was historically in surplus, has acquired since 1996 a serious deficit position. Exports, net factor income from work in Israel and current private transfers from Palestinian expatriates and other non-official sources help to finance the huge import bill. These items, however, are insufficient to balance the current account deficit, which is partially offset by donor finance. Since 1996, supplier credit and other forms of short-term commercial debt, as well as official debt, have covered the part of the current account deficit that appears to be related to import financing needs.[8]

9. While the management of PA public finances has improved in recent years, the domestic and external financial challenges faced by the emerging Palestinian economy have become greater. The PA budget for 2000 reached $1.4 billion, 70 per cent of which is devoted to payroll and operating expenditures. Development expenditures remain wholly dependent on donor finance, which is increasingly made available in the form of loans. The budget deficit has been reduced since 1997, and should be eliminated in 2000, but arrears remain from previous years. A significant new challenge to emerge is the growing PA public debt, which reached over $600 million by 1999. The PA is just beginning to elaborate policy and technical criteria for incurring public debt, which to date has been accumulated without any central guidance or resort to defined objectives or priorities or according to established economic feasibility. Though the proportion of debt to GDP in 1998 was low as compared to many indebted developing economies, this should be viewed in the light of the short period during which PA external debt accumulated. While debt service on most loans is low and has yet to commence, balance-of-payments pressures could fuel further official indebtedness.

10. The preceding paragraphs demonstrate that, despite the progress made in reform of the enabling environment during the interim period, the Palestinian economy today remains adversely dependent on the growth path emerging from the impact of prolonged occupation. This path exhibits a steep reliance on external resources (factor income, remittances, aid and loans), weak domestic employment generation capacity and distortions in the use of economic resources, the structure of production and trade and in resources allocated to health, education and the procurement of knowledge. These distortions continue to affect the pace of economic activities and result in a low level of per capita income and an erratic, and generally low, rate of income growth. To increase both, and to promote comprehensive economic development, the PA will have to elaborate a strategy that will shift the economy to a qualitatively new growth-augmenting, positive path dependence that features higher efficiency and a higher-income trajectory. While the post-interim period political and economic framework will permit a more systematic effort to reorient macroeconomic and sectoral policies in order to attain these goals, the continued availability of external resources will remain crucial to sustaining the reconstruction and development programme over the coming decade.[9]

Chapter II

UNCTAD ASSISTANCE TO THE PALESTINIAN PEOPLE

A. UNCTAD programme of technical assistance to the Palestinian people

11. Since the first advisory and assessment missions to the Palestinian Authority (PA) undertaken by UNCTAD staff in 1995, the technical assistance provided by UNCTAD to the Palestinian people has evolved into a multifaceted and integrated programme of technical cooperation, drawing upon the expertise of the secretariat as a whole. When UNCTAD embarked on activities of technical assistance to the PA, these were conceived within the framework of its "Programme of Technical Cooperation Activities in Support of Palestinian Trade, Finance and Related Services",[10] endorsed by the PA in 1995. This Programme outlined capacity and institution-building assistance under six headings: international trade procedures; trade policies and strategies; commodity trade and export promotion; commercial transport systems and services; investment and enterprise; and, international financial flows. The initial focus of UNCTAD technical assistance was determined by the priority needs identified by the PA, at the early stage of its reconstruction and development programme.

12. However, as the range of technical assistance needs has since widened, the secretariat's expertise and corresponding capacity to respond effectively has also grown, while PA capacity to absorb such assistance has improved. Accordingly, UNCTAD's involvement has assumed a clearer programmatic profile, with activities clustered under four programmes:

- Trade policies and strategies;
- Trade facilitation and logistics;
- Finance and development; and,
- Enterprise, investment and competition policy.

13. By linking the findings of UNCTAD's analytical and empirical investigation in each of these areas to specific technical assistance needs identified by the PA, the secretariat has been able to deliver targeted technical assistance in areas of its competence. In each of these programme areas, advisory services, group training and other modalities of technical assistance are deployed with the overall aims of:

- Bolstering PA policy-making, managerial and institutional capacities to enhance performance of the trade, public finance and related services sectors; and
- Contributing to the creation of an appropriate enabling environment to mobilize the development potentials of the Palestinian private sector.

14. By 2000, five projects had been implemented, with operational activities ongoing under six other projects. New advisory services and projects requested by the PA were to commence or were under consideration in nine other areas, as donor support for UNCTAD's technical assistance programme has increased. The following sections report on progress made in these different areas, while table 2 provides additional information on funding status and approximate expenditures to date. By 2000, the secretariat had secured only 47 per cent of the total funds required to implement all UNCTAD technical assistance proposals prepared since 1997. This proportion is an improvement over last year, but a large gap remains between required and committed resources. Donor support is still sought for 14 UNCTAD ongoing and proposed projects that remain unfunded or are only partially funded.

B. Trade policy and strategy

1. Training programme in international commercial diplomacy: Phase I (implemented)

15. Group training activities under this project were funded jointly by UNCTAD, UNDP and the United Nations Institute for Training and Research (UNITAR). The third and final training session was held in November 1999, focusing on negotiation strategies and skills. The training exercises took the form of a simulation, in addition to presentations by UNCTAD and international experts, for 18 senior officials from seven PA Ministries involved in bilateral and multilateral negotiations. It was designed to focus on the options related to various trade arrangements; monetary issues; negotiation strategy development, skills and techniques, role-playing, and bilateral simulation exercises; and, selected WTO-related issues. Training materials developed by UNCTAD and adapted by PA trainers were used for follow-up commercial diplomacy training workshops conducted by national trainers for PA officials.

2. Training programme in international commercial diplomacy: Phase II (ongoing)

16. Following the successful implementation of the first phase of operational activities in this area, the PA has requested a second round of training activities and advisory services, for which some funding has been pledged and activities commenced. Phase II activities are designed to consolidate the achievements in all components of this project and focus advisory services on specific issues of concern to the PA, especially with respect to its future relationship with the multilateral trading system. It would further promote interaction and help build a consensus between the Palestinian public and private sector on issues of joint concern. Proposed activities include: a High-Level Symposium on the status of WTO negotiations; information/training sessions for public and private sector participants on emerging WTO issues; advisory services on priority WTO issues identified by the PA; and, training in negotiation skills and techniques for officials involved in trade negotiations. Adaptation and selective translation of training materials is also necessary to enable their wider application.

Table 2. UNCTAD PROGRAMME OF TECHNICAL ASSISTANCE TO THE PALESTINIAN PEOPLE, 1997-2001

Programme/Project (partially funded and unfunded projects are indicated in italics)	PA Counterpart	Duration	Funding status (US$ - excl. AOS)			Source of Funding*	Implementation Status
			Total Budget	Pledges	Expenditures		
TRADE POLICIES AND STRATEGIES							
TPS1: Training programme in international commercial diplomacy: PHASE I	Ministry of Economy and Trade	1998-1999	70 000	70 000	70 000	UNITAR UNDP UNCTAD	Implementation completed 1999; three group training workshops.
TPS2: Training programme in international commercial diplomacy: PHASE II	Ministry of Economy and Trade	2000-2001	110 000	65 000	15 000	United Kingdom	Implementation commenced early 2000 with UK Trust Fund resources. Co-funding sought for balance ($45 000) of total budget.
TPS3: Bilateral and regional trade arrangements	Ministry of Economy and Trade	1998-2000	90 000	35 000 10 000	35 000	UNCTAD UNDP	Expert and staff advisory services 1998-1999; new activities pending on regional issues.
TPS4: Transit trade and transport	Ministry of Economy and Trade	2000-2001	30 000	-	-	-	Advisory/expert services and group training workshop; funding sought.
TPS5: International procurement of strategic food commodities	Ministry of Supply	2000-2001	80 000	-	-	-	Project proposal under revision; potential donor identified.
TRADE FACILITATION AND LOGISTICS							
TFL1: Strengthening operational capacities in customs administration	Ministry of Finance	1997-1999	20 000	-	20 000	UNCTAD	Assessment missions 1997 and ASYCUDA presentation 1999.
TFL2: PA subregional cooperation with Egypt and Jordan: PHASE I	Ministry of Economy and Trade	1998-1999	120 000	110 000	110 000	UNDP	Implementation complete 1999; follow-up advisory services provided 2000.
TFL3: Strengthening trade efficiency: Trade Point Palestine Ramallah	Ministry of Economy and Trade	1999-2000	170 000	90 000 30 000	60 000 30 000	Italy UNDP	TPPR operational 2000; Gaza follow-up unfunded.
TFL4: PA subregional cooperation with Egypt and Jordan: PHASE II	Ministry of Economy and Trade	2001	90 000	-	-	-	Follow-up project proposal; funding sought.
TFL5: Managerial and institutional capacities for Gaza Seaport	Ministry of Planning and International Cooperation	2000-2001	60 000	-	-	-	Port mission (port cell and port legislation) approved; funding sought.
TFL6: Preparations for ASYCUDA	Ministry of Finance	2000-2001	720 000	-	-	-	UNCTAD proposal for preliminary phase and installation approved; funding sought.

Programme/Project (partially funded and unfunded projects are indicated in italics)	PA Counterpart	Duration	Funding status (US$ - excl. AOS)			Source of Funding*	Implementation Status
			Total Budget	Pledges	Expenditures		
TFL7: Human resource development in trade: TRAINFORTRADE	Ministry of Economy and Trade	2000-2001	200 000	40 000	40 000	UNDP	Initial activities 1998; follow-up needs assessment pending; funding sought.
TFL8: Statistical series on international trade	Palestinian Central Bureau of Statistics	2001	120 000	-	-	-	Project proposal outdated: requires new consultations and reformulation
FINANCE AND DEVELOPMENT							
FD1: Strengthening capacities in debt monitoring and financial analysis	Ministry of Finance	2000-2001	450 000	450 000	-	Norway	Final donor approval pending; project activities should commence last quarter 2000
FD2: Strengthening capacities of the domestic insurance sector	Ministry of Finance	2001	150 000	-	-	-	Advisory services 1997; new assessment mission and project proposal update pending
FD3: Palestinian macroeconomic simulation framework	Ministry of Economy and Trade	2000-2001	50 000	-	-	-	Advisory services and group training workshop; funding sought.
INVESTMENT, ENTERPRISE AND COMPETITION							
IEC1: Feasibility study for Nablus industrial estate	Ministry of Industry	1997-1999	260 000	260 000	230 000	UNDP	Implementation complete 1999
IEC2: Support for small and medium-size enterprise development (EMPRETEC)	Ministry of Planning and International Cooperation	2000-2001	300 000	300 000	-	Italy	Project document under preparation; activities commence last quarter 2000.
IEC3: Investment promotion policies	Ministry of Economy and Trade	1998-2000	40 000	-	10 000	UNDP	Participation of PA experts in regional symposia; new advisory services pending.
IEC4: Palestinian competition policy	Ministry of Economy and Trade	2000-2001	-	-	-	-	Assessment mission planned late 2000
Total: 20 projects	Six PA counterparts	1997-2001	3 130 000	1 460 000	620 000	-	

* In addition, an average of 2 work/months per annum of UNCTAD regular staff resources is devoted to each project, for backstopping or advisory services.

3. Bilateral and regional trade arrangements (ongoing)

17. Advisory services were extended to the PA in 1998-1999 in the context of preparations for forthcoming trade negotiations with different trading partners. The PA Ministry of Economy and Trade requested that UNCTAD intensify its advisory services and channel appropriate expertise to the PA, especially in the areas of national trade policy development and assessing strategic trade policy options. While the training programme in international commercial diplomacy addresses these requirements at the multilateral level, issues need to be examined at the bilateral and regional levels, including the implications of Palestinian accession to the Pan-Arab Free Trade Area (PAFTA). Extrabudgetary resources are needed to help the PA elaborate the "Palestinian trade policy and sectoral development strategy", as proposed at the recent United Nations Inter-Agency Meeting and currently under consideration by the PA.

4. Transit trade and transport (ongoing)

18. As part of preparations for future trade agreements, the PA has requested technical assistance from UNCTAD in designing transit transport framework agreements with immediate partners in the context of subregional cooperation in this area. Drawing on its experience in other regions of the world, the secretariat will be able, using existing resources, to extend limited advisory services in this area. This would include assessment of the physical and policy prerequisites for streamlined reciprocal transit transport arrangements with Israel, Egypt and Jordan and identification of the issues to be included in transit transport framework agreements, in line with current international standards and norms. A fuller response to the PA request, including group training of officials responsible for management of transit transport facilities, is contingent on the availability of extrabudgetary resources.

5. International procurement of strategic food commodities (proposed)

19. UNCTAD advisory missions since 1995 have outlined a number of measures for action within the framework of a technical assistance project, including a seminar on food commodity trading and commodity supply management. Following the expression of interest in this project by a potential donor, new consultations were initiated with the PA Ministry of Supply in 2000. The PA has re-examined the draft project proposal in the light of current circumstances and needs, and has made a number of suggestions to enhance its design and impact. It is envisaged that this pilot project would reveal a number of areas for follow-up assistance to the PA in the area of commodity trade, at both the import and the export levels, as well as related physical infrastructure requirements. Technical assistance needs in the latter area would be of relevance to other international agencies which will be invited to participate in the seminar, such as the Food and Agriculture Organisation (FAO), the World Food Programme (WFP) and the Societé Genèrale de Surveillance (SGS).

C. Trade facilitation

1. Strengthening operational capacities in customs administration (implemented)

20. UNCTAD's technical assistance in this area began with advisory missions in 1996-1997, which included recommendations for reform of institutional and procedural arrangements

affecting customs administration. Following a request by the PA General Directorate for Customs and Excise, UNCTAD fielded a new advisory mission in November 1999 to assess PA information technology needs in the area of customs procedures and to demonstrate the ASYCUDA++ programme to a group of PA officials. The mission prompted serious interest in the ASYCUDA system by PA participants and officials (see para. 26 below). In addition, the mission produced a detailed assessment report and recommendations for action by the PA on general trade facilitation measures and on commencing preparatory work leading towards automation of declaration processing procedures.

2. PA subregional cooperation with Egypt and Jordan in trade-related services: Phase I (implemented)

21. This project was designed to build upon the achievements of the peace process since 1993 and the accords between the PA and Egypt and Jordan regarding cooperation in customs procedures, transport coordination, and streamlining trade-related business services and operations. A substantive report on the issues covered by this project and its policy and procedural recommendations was published by UNCTAD in early 2000.[11] By the end of 1999 all programmed activities had been completed, with a tripartite governmental meeting in Amman attended by the three project national focal points and representatives of UNCTAD and UNDP. At that meeting, the representatives of Egypt, Jordan and the PA agreed that the conclusions and recommendations of the Ramallah workshop, conducted under this project, constitute an appropriate technical work programme to revitalize trade cooperation and a basis for activating existing cooperation frameworks. They also proposed that the tripartite Ministerial meeting proposed by the Ramallah workshop should aim at adopting a concrete action plan that can be implemented. The representatives of the three partners also proposed that the need to develop a common vision for future economic and trade relations should be addressed.

22. In addition, several follow-up steps emerged from this project at the subregional and PA levels. A technical meeting of the Palestinian, Egyptian and Jordanian Trade Points was hosted in Cairo in November 1999 by the Egyptian International Trade Point, with UNCTAD participation and UNDP support, to discuss developing tripartite cooperation. In addition, two UNCTAD advisory missions were fielded at the request of the PA in early 2000. The first mission examined further development of Palestinian Trade Points and cooperation with other Trade Points in the region, while the second mission assisted in designing the terms of reference for a national trade and transport facilitation committee, in the context of ongoing private sector initiatives in this area.

3. Strengthening trade efficiency: Trade Point Palestine Ramallah: Phase I (implemented)

23. The Trade Point Palestine Ramallah (TPPR) was established in 1999, with UNCTAD and UNDP support. The PA Ministry of Economy and Trade hosted TPPR during its development phase, which was completed by early 2000. Once TPPR was fully operational and had begun to provide trade information and facilitation services to a group of Palestinian small and medium-size enterprises, the PA decided to relocate it with a private sector host. On the basis of a technical assessment of the potential private sector hosts for TPPR, the Palestinian Trade Centre (PALTRADE) was selected as the most suitable trade-promotion and facilitation organization

capable of sustaining and developing the Trade Point. In March 2000, under the patronage of the PA Minister of Economy and Trade, TPPR was formally launched at PALTRADE as an integral component of its trade support services. The main objective of TPPR will continue to be to coordinate the delivery of trade support services to the Palestinian business community and to encourage the participation of new companies and entrepreneurs, particularly small and medium-size enterprises, in regional and international trade. If the full potential of this project is to be realized, follow-up activities, training and extension of the Trade Point concept to link Gaza will require fresh extrabudgetary support into 2001.

4. PA subregional cooperation with Egypt and Jordan in trade-related services: Phase II (proposed)

24. In the light of the successful implementation of Phase I of this project, the PA, supported by Egypt and Jordan, requested that UNCTAD pursue its technical assistance proposals to promote subregional cooperation in these sectors and seek the necessary resources to implement a second phase of work. UNCTAD is currently seeking funding for this project. Specifically, the Phase II project would proceed along three simultaneous substantive tracks, aimed at activating the recommendations emerging from Phase I and widening the subregional framework for developing and diversifying Palestinian external trade:

- Promotion and dissemination among the private sector of Egypt, Jordan and the PA of the findings of the June 1999 Ramallah workshop, updated as relevant;

- Deepen the investigation of Egypt-Jordan-PA trade-related services by covering a key sector not included in Phase I (logistics and distribution networks);

- Expand the scope of subregional cooperation with the PA in trade-related services by including other potential regional trade partners, with particular emphasis on the implications for trade facilitation issues of Palestinian accession to the PAFTA.

5. Managerial and institutional capacities for Gaza Seaport (proposed)

25. Further to a request in 1999 from the PA Ministry of Planning and International Cooperation that UNCTAD renew its assistance in this area, the secretariat proposed an UNCTAD port mission to Gaza, focusing on the PA request for assistance in preparation of port legislation. The proposed mission would also produce a follow-up technical assistance project proposal to establish a port cell to serve as technical secretariat to the Gaza Seaport Authority. The port cell would supervise planning, construction and commissioning of the seaport, and ensure adequate interlinkages between the legal, engineering, commercial, environmental, security and other technical aspects of the project. Efforts to mobilize resources to cover the mission costs have been suspended since 1999 owing to new delays in commencing seaport construction. However, as construction work finally commenced in mid-2000, the PA has signalled its interest in UNCTAD initiating contacts to secure the necessary funding to provide the requested technical assistance to the PA in this area.

6. Preparations for ASYCUDA (proposed)

26. After careful examination of UNCTAD recommendations made by the 1999 advisory mission, the PA Ministry of Finance (Directorate General of Customs and Excise) endorsed UNCTAD's proposal to install ASYCUDA++ with the PA. In July 2000, the PA requested UNCTAD to identify possible funding sources for the preliminary phase of the project, which could be followed by full-fledged installation. Acting as an interim solution in order to capture declaration statistics and enhance revenue collection, the preparatory project would enable the PA to: reconcile customs declarations against the list supplied by Israel; generate statistics for integration into the existing PA computerized system; and use ASYCUDA statistics to apply audit controls. This would involve installation of a simple system at Gaza International Airport and other selected sites for processing of simplified declarations, as well as installation of a system at one central office, intended to process declarations post-clearance. Relevant technical and functional training of customs officials would also be undertaken, as well as a legislative and tariff review. The preliminary phase would also aim to define the needs for a more comprehensive system to cover all types of customs transactions and to assess training and equipment required for the roll out of the system to all relevant offices. Consultations are under way with a potential multilateral funding source to further develop this proposal and secure the necessary funding for the ASYCUDA preparatory phase.

7. Human resource development in trade: TRAINFORTRADE (proposed)

27. Owing to resource constraints, UNCTAD was not able to develop a TRAINFORTRADE programme for the PA, as outlined in previous proposals (preparation of training materials, organizing training workshops, and advisory services to strengthen local training capacities). As a first step, the PA has requested that UNCTAD supervise a training needs assessment exercise and help to prepare a training strategy and programme. This would serve as the basis for subsequent resource mobilization efforts to develop Palestinian training capacities in this area, which is acquiring growing significance as the Palestinian economy becomes more open to international trade on various levels. The newly developed TRAINFORTRADE materials and the revived focus of the programme should provide a strong basis from which to develop a comprehensive project in this area, drawing on formidable Palestinian capacities and institutional experience in academic and technical education.

8. Statistical series on international trade (proposed)

28. Since the advisory missions conducted by UNCTAD in 1996-1997, the work of the Palestinian Central Bureau of Statistics (PCBS) in this area has progressed substantially. Exchange of information with the PCBS continues, and recent consultations have identified some possible areas for closer cooperation. These include the integration of PCBS series on international trade into the UNCTAD Economic Time Series (ETS) database, as well as possible advisory services aimed at enhancing the quality of these series. In the context of the proposed ASYCUDA project, there will be scope for making a concrete contribution to developing more reliable and accurate trade statistics, in close cooperation with PCBS.

D. Finance and development

1. Strengthening capacities in debt monitoring and financial analysis (proposed)

29. As reported previously, in 1999 the UNCTAD secretariat, in close consultation with the PA Ministry of Finance, finalized a project proposal to assist the PA in this key area of governance. The proposal has four major components: establishing the institutional environment for the PA Debt Office; computerizing the Debt Office through installation of the UNCTAD Debt Management and Financial Analysis System (DMFAS 5.1); compilation of DMFAS 5.1 in Arabic; and, preparation of guidelines for financing public investment and optimal use of public debt instruments. In early 2000, the PA submitted the project proposal to a bilateral donor, who has agreed in principle to fund this major project proposal. The establishment by the PA of the Higher Council for Development (see chapter I), whose mandate includes oversight of public debt issues, provided added impetus to this project, in the light of its contribution to promoting improved financial management and transparency. It is expected that project activities will commence before the end of 2000.

2. Strengthening capacities of the domestic insurance sector (ongoing)

30. UNCTAD advisory services on this issue in 1996-1997 assisted the PA Controller of Insurance in brokering the insurance law, defining the role of the supervisory authority and the effective operation of the motor accident victims' fund. The secretariat also prepared proposals for technical assistance in the training of insurance regulators and agents, though resources to continue work in this area have not been available. UNCTAD remains ready to provide follow-up advisory services to assist the PA as it develops its strategy for this sector, which is facing an increasingly critical situation owing to the undeveloped state of the insurance industry and resulting difficulties in regulating the market.

3. Palestinian macroeconomic simulation framework (ongoing)

31. Building on its previous research and analysis on the Palestinian economy, the UNCTAD secretariat has completed updating and reprogramming a statistical database and econometric analysis framework for examining prospects for sustained development of the Palestinian economy. The "Palestinian Macroeconomic Simulation Framework (MSF), 1994-2010" charts pre-1994 relationships between major Palestinian demographic and economic aggregates and projects alternative scenarios for future performance in the light of optional assumptions and policy decisions. Developed primarily as a research instrument for the secretariat, the MSF is also intended for use as an illustrative reference tool by Palestinian research, planning and policy-making centres. The initial findings of the MSF were presented at two recent seminars on the Palestinian economy and will be published by UNCTAD. A software and database version of the MSF will be made available to the PA. Discussions are under way with the PA on the most appropriate context for installation of the MSF, as well as Palestinian training needs in the field of economic modelling and forecasting.

E. Investment, enterprise and competition

1. Feasibility study for Nablus industrial estate (implemented)

32. This project involved the preparation by UNCTAD of a comprehensive feasibility study for the planned Nablus Industrial Estate (NIE), in close cooperation with the PA Ministry of Industry and the Palestinian Industrial Estates and Free Zone Authority (PIEFZA). The project had been fully implemented by mid-1999. Subsequently, UNCTAD was informed that bilateral donors were considering financing off-site development costs of the NIE, while a private sector developer consortium is to be formed to finance on-site infrastructure and manage the Estate. PIEFZA has informed UNCTAD that it will continue to need assistance in this area, in particular with regard to attracting investors to NIE. Subject to the outcome of further consultations, UNCTAD hopes to be able to respond favourably to this request.

2. Support for small and medium-size enterprise (SME) development (proposed)

33. In the context of the MED2000 programme, implemented jointly by UNCTAD and other agencies, it has been possible to include the PA in UNCTAD's technical assistance programme aimed at promoting the development role of SMEs. In preparing for its technical assistance to the PA in this new area, the secretariat carefully investigated field conditions and evaluated optional assistance strategies, taking into consideration the range of ongoing donor-financed programmes for this sector. This entailed a programming mission undertaken by UNCTAD staff in late 1999, which was followed up by preparation by an international consultant of a field report on the Palestinian SME landscape and development needs.[12] A second project formulation mission in April 2000 resulted in agreement to launch the EMPRETEC programme in the Palestinian territory later this year, with local implementation by a Palestinian private sector host, the Palestinian Development Fund (PDF). This project to enhance and consolidate top-level Palestinian entrepreneurial skills will be closely coordinated with related programmes under way to provide technical assistance, industrial upgrading, improved access to project finance and marketing support to Palestinian SMEs.

3. Investment promotion (ongoing)

34. In the light of the effective implementation of the Nablus Industrial Estate project, UNCTAD was included in a shortlist comprising mainly of local and international private sector firms which were chosen to participate in a "Quality Based Selection" of proposals to provide technical assistance to the Palestinian Investment Promotion Agency (PIPA). The proposed project, to be funded by the World Bank, addressed a number of technical assistance needs in the area of investment appraisal and promotion under the mandate of PIPA, which was established in accordance with the Palestinian Investment Encouragement Law. UNCTAD's proposal, submitted in late 1999, was rated a very close second among the six proposals received and thus was not selected. UNCTAD has meanwhile assured the PA of its readiness to respond to requests for technical assistance to PIPA as may be required, subject to resource availability.

4. Competition law and policy (proposed)

35. One of the key areas for policy reforms to be pursued by the PA in the context of the work of the Higher Council for Development (see chapter I) is in the area of privatization of PA commercial holdings and creating a more transparent and hospitable environment for private sector competition. Discussions have been held with the PA on its work programme in this new area of concern, but its precise technical assistance needs have yet to be identified. As the role of the Council is expanded in the coming period and the need grows to establish legal and institutional competition safeguards, UNCTAD will maintain its contacts with the PA so as to be able to respond to any request for assistance in this area of its competence.

Chapter III

HARMONIZATION, RESOURCE MOBILIZATION AND WORK PROGRAMME

A. Inter-agency cooperation, donor support and consultations with Palestine

36. In line with the medium-term plan for 1998-2001, UNCTAD has intensified collaboration with other international organizations in order to enhance synergies, avoid duplication and coordinate related activities. In several areas, the United Nations Development Programme, in a close cooperative approach to work in areas of common concern, provides funding and implementation arrangements for UNCTAD projects. The UNCTAD secretariat also maintains a regular exchange of information with the United Nations Special Coordinator in the Occupied Territory (UNSCO) and participated actively in the Sixth United Nations Inter-agency Meeting, held in June 2000 in Gaza. That Meeting marked the first time that agencies involved in supporting Palestinian trade and investment were called upon to join resources and expertise to prepare, in close cooperation with concerned PA Ministries, a "Palestinian Trade Policy and Sectoral Development Strategy", for consideration and adoption by the PA.

37. Since 1999, the secretariat has continued cooperation with other agencies active in the field. Forms of cooperation include project coordination, provision of experts and training materials for technical assistance activities, joint resource mobilization efforts, exchange of information and pooling of contacts. Relations in this period have been further developed with: UNCTAD/WTO International Trade Centre; the United Nations Economic and Social Commission for Western Asia; the United Nations Industrial Development Organization; the International Labour Organization; the United Nations Division for Palestinian Rights; the World Bank; the International Monetary Fund; and Palestinian and international non-governmental organizations involved in extending assistance to the Palestinian people.

38. The past year has witnessed a transformation in the capacity of the secretariat to provide concrete and effective technical assistance to the Palestinian people. This may be ascribed to a number of factors, such as: the profile established by the secretariat over the first few years of its efforts in this area, amidst a wide field of international and bilateral actors; the growing need of the PA at this stage in its institutional development for the type of technical assistance that an agency like UNCTAD is able to provide; and, improved managerial capacities within the PA Ministries with which UNCTAD deals. However, the major impetus for UNCTAD's increased involvement in technical assistance to the PA has surely been the recognition by major bilateral donors of the technical relevance and competence of UNCTAD's different technical assistance activities, globally and in this special case as well. UNCTAD's activities of assistance to the Palestinian people have benefited from generous extrabudgetary support already provided or pledged by the Governments of Italy, the Netherlands, Norway and the United Kingdom. However, UNCTAD proposals for technical assistance to the Palestinian people in a number of project areas remain pending. This constrains the secretariat's ability to deliver prompt, effective and comprehensive assistance in response to priority requests by the PA and highlights the need for more vigorous support for the secretariat's technical assistance proposals at this important juncture in the development of the Palestinian economy.

39. In line with the relevant General Assembly resolutions, close consultations are maintained with Palestine and the functional Ministries of the PA at all stages of work programme implementation, in particular as regards project design and execution. As one of the first international organizations to analyse the issues surrounding the development of the Palestinian economy in the 1980s, and in the light of its effective and carefully targeted technical assistance activities since 1995, the secretariat has developed close cooperative relations with Palestine. Needless to say, this relation will develop further as Palestine becomes fully involved in the UNCTAD intergovernmental machinery.

B. Future activities under the secretariat's 2000-2001 work programme

40. Paragraph 9.13 (e) of the United Nations medium-term plan for the period 1998-2001 requires the secretariat "to continue the work of UNCTAD, in accordance with its mandate, in assisting the Palestinian people to develop capacities for effective policy-making and management pertaining to international trade, investment and related services". Paragraph 167 of the Plan of Action adopted at UNCTAD X welcomed the assistance provided by UNCTAD to the Palestinian people and called for it to be intensified. As manifested by the above report on the scope of technical cooperation activities completed, under way or planned by the secretariat, this mandate is being addressed in a comprehensive and sustained manner.

41. The activities envisaged under the revised UNCTAD programme budget for the biennium 2000-2001 further develop the major tracks already established for UNCTAD's work on assistance to the Palestinian people. Programmed activities include: (a) annual reports on UNCTAD's assistance to the Palestinian people for the consideration of the Trade and Development Board, reflecting the research and operational activities conducted by the secretariat; (b) three non-recurrent publications: a comprehensive assessment completed in 2000 on Palestinian economic performance in the interim period and future directions for national policy and regional cooperation; the findings of the above-mentioned UNCTAD MSF; and a guide to Palestinian SMEs; (c) advisory services; (d) group training; and (e) formulation and implementation of field projects. An evaluation of the impact of technical assistance to the Palestinian people was presented in last year's report to the Board,[13] and each UNCTAD project includes performance indicators to monitor progress of work and measure impact. These benchmarks have been largely attained in completed projects, though a systematic assessment of impact remains to be undertaken, subject to resource availability.

42. Secretariat activities concerning assistance to the Palestinian people are backstopped as necessary by the different substantive divisions of the secretariat and are coordinated by the Assistance to the Palestinian People Unit (APPU) in the Macroeconomic and Development Policies Branch of the Division on Globalization and Development Strategies. The past year has permitted a strengthening of regular budget staff resources devoted to this area of work with the appointment in 2000 of the Coordinator, Assistance to the Palestinian People. The strengthened resource base devoted to this work area will permit UNCTAD to sustain and deepen its role in assistance to the Palestinian people in the coming years.

Notes

[1] In accordance with the relevant General Assembly resolutions and decisions, references in this report to the occupied Palestinian territory pertain to the Gaza Strip and West Bank, including east Jerusalem. For purposes of brevity, the term "the Palestinian territory" is also used as appropriate.

[2] Palestinian Authority and International Monetary Fund, "West Bank and Gaza Economic Policy Framework – Progress Report", 31 May 2000, p. 4. This important document was presented to the meeting of the Ad Hoc Liaison Committee of Donors, Lisbon, 7-8 June 2000, and subsequently released publicly.

[3] Ibid.

[4] The estimated market value of all PA commercial holdings was estimated at $345 million at the end of 1999, ibid. Annex I.

[5] This was reported to have reached over $600 million in 1999: Palestinian Economic Policy Research Institute – MAS, MAS Economic Monitor, No. 6, April 2000.

[6] The published sources for data and estimates on Palestinian economic performance, which are used in this report all draw upon three main PA sources: the Palestinian Central Bureau of Statistics, the Ministry of Finance and International Monetary Fund staff estimates:

- MAS Economic Monitor, op. cit.;
- "West Bank and Gaza Economic Policy Framework – Progress Report", op. cit.
- Office of the United Nations Special Coordinator "Report on the Palestinian Economy", UNSCO, Gaza, Autumn 1999.

[7] Unless otherwise indicated, economic data presented here exclude east Jerusalem.

[8] Palestinian balance-of-payments data are generally considered weak, and feature serious errors, omissions and discrepancies, which might account for a part of this deficit in "net capital movements", estimated at over $700 million since 1999. Otherwise this item reflects the effective external financing needs of the Palestinian economy.

[9] In the context of an ongoing technical assistance project (see chapter II, D.3), the UNCTAD secretariat has developed a Palestinian "Macroeconomic simulation framework" (MSF). The framework demonstrates the capacity of the economy to break out of the current adverse path dependence, reduce major macro distortions (trade deficit, saving/investment gap and chronic unemployment) and productively absorb a large returnee population over 10 years. This would be achieved through a combination of policies to enhance domestic savings and investment, expand and diversify exports and better allocate significant flows of external resources.

[10] Issued in document UNCTED/ECDC/SEU/11, Geneva, 27 December 1995.

[11] UNCTAD. Cooperation between the Palestinian Authority, Egypt and Jordan to enhance subregional trade-related services. UNCTAD/GDS/SEU/3, Geneva, 14 February 2000.

[12] A guide to Palestinian SMEs based on this research work will be issued by UNCTAD in early 2001.

[13] UNCTAD. Report on UNCTAD's assistance to the Palestinian people. TD/B/46/5, Geneva, 10 August 1999.